GREAT LAKES PILOTAGE AUTHORITY

SUMMARY OF CORPORATE PLAN 2004-2008
SUMMARY OF OPERATING BUDGET 2004
SUMMARY OF CAPITAL BUDGET 2004

February 12, 2004

Great Lakes Pilotage Authority

SUMMARY OF 2004-2008 CORPORATE PLAN
2004 OPERATING BUDGET AND CAPITAL BUDGET FOR 2004
AS APPROVED BY THE MINISTER OF TRANSPORT AND TREASURY BOARD
THE 10TH DAY OF DECEMBER, 2003 T.B. REC. 831036

CORPORATE PLAN SUMMARY

MANDATE

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. Pursuant to the *Marine Act*, which received Royal Assent on June 11, 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority is deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*. On October 1st, 1998, the Authority ceased to be a subsidiary of the St. Lawrence Seaway Authority and has surrendered its charter under the *Canada Business Corporations Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that the pilotage tariffs shall be fair, reasonable and sufficient and, together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

The Authority is not an agent of Her Majesty.

The Chair of the Authority is appointed by order of the Governor in Council on the recommendation of the Minister of Transport. The Chief Executive Officer is selected by the Board of Directors and appointed by order of the Governor in Council on the recommendation of the Minister of Transport. The Chief Executive Officer has the direction and control of the business of the Authority.

POWERS

To carry out its responsibilities the Authority has made regulations, approved by Order-in-Council, pursuant to the *Pilotage Act* for:

1. The establishment of compulsory pilotage areas.
2. The prescription of the ships or classes of ships subject to compulsory pilotage.
3. The prescription of the classes of pilot licenses and classes of pilotage certificates that may be issued.
4. The prescription of the tariffs of pilotage charges to be paid to the Authority for pilotage services.

OBJECTIVES

The Authority's corporate objectives are summarized as follows:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.

- To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in such activities and geographic areas as may be appropriate in the interest of safe navigation.
- To provide the above services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user.
- To be responsive to the Government's environmental, social and economic policies.

DESCRIPTION OF THE OPERATIONS

The Authority operates in the interest of safety, a marine pilotage service in all Canadian waters in the Provinces of Ontario, Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock.

Services are provided through the performance of pilotage assignments on those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority, using pilot boats contracted by the Authority and dispatch services, both controlled through Pilotage Headquarters at Cornwall and/or the district office at Port Weller, Ontario.

The Authority must co-ordinate its efforts and operations with a number of other organizations such as The St. Lawrence Seaway Management Corporation and the United States Seaway Development Corporation, who operate the lock facilities, and maintain traffic control systems within the Region; the Canadian Coast Guard, who provide aids to navigation and the United States Coast Guard, who are responsible for the United States pilotage matters in international waters.

The Great Lakes Pilotage region is divided as follows:

- Cornwall District
- International District No. 1
- Lake Ontario
- International District No. 2 (including the Welland Canal)
- International District No. 3 (including Lakes Huron, Michigan and Superior)
- The Port of Churchill, Manitoba

UPDATE OF AUTHORITY'S ACTIONS UNDERTAKEN TO SATISFY 1999'S CTA RECOMMENDATION

The following recommendations were made in the Minister of Transport's letter to the Chair of the Authority on November 15, 1999 and make specific reference to the CTA's recommendation found in the report to parliament "Ministerial Review of Outstanding Pilotage Issues."

Recommendation	Status
The Authority is to develop and adopt a risk based methodology to be used for the designation or re-assessment of compulsory pilotage area. The Authority will conduct regular reviews every 5 years of each compulsory pilotage area and in consultation with the users those compulsory areas where there has been a change in factors and circumstances which justify a re-examination of the designation, a risk based methodology is to be used in the reassessment.	Transport Canada has designed a risk based methodology for the four Canadian Pilotage Authorities to follow in the review of compulsory pilotage areas. GLPA is now undertaking its first review which should be completed by the Winter of 2004.
The Authority is to develop and implement a fair and reasonable system for assessing pilots' competence and	The process to design a system for assessing pilots' competence and quality of service has been finalized

quality of service. This assessment process will have to take place regularly and not less than every five years.	and has seen the first 16 pilots complete the assessment. This process was undertaken with the full cooperation of the pilots.
The Great Lakes Pilotage Regulations must be amended to enhance requirements for exempting vessels from compulsory pilotage in the Great Lakes Pilotage region.	The Authority is following the risk based methodology to address the request and has completed the study. The recommendation will be Gazetted in the Spring of 2004.
The Minister recommends that the Authority, in partnership with pilots and all legitimate interested parties, regularly examine all aspects of its operations on a continuing basis and report to the Minister the specific steps that have been taken to achieve the goal of improved efficiencies and further cost reductions. Although most of the work has been done in this regard, it would be a constant objective.	This exercise has been done and will be continued.
The Minister requests that a formal system of consultation with interested parties on financial, operational and planning issues be initiated and that the Authority report on its plan for consultation and the implementation of the plan in the Annual Report to Parliament.	The Authority has initiated in 2000 a yearly meeting with all interested parties and was repeated in 2001, 2002 and 2003.
The Minister asks that the Great Lakes Pilotage Authority establish a structural methodology for handling complaints and report on its implementation in the 2000 Annual Report	A structural methodology for handling complaints has been established in 2000and was continued in 2001, 2002 and 2003. The Authority received a few inquiries from users but all complaints were properly addressed.
The Minister request that GLPA and industry establish a system for the early release of practical information with respect to safety incident.	The Authority and industry have discussed this recommendation and have yet to finalized a formal system. The Authority will report the progress on this initiative in the 2004 Annual Report.
The Authority should provide reasons when a request for a waiver is denied as to add greater transparency to the waiver process.	This recommendation has been so acted upon by the Authority.
The Authority must begin to report in the Annual Report on the pool of qualified pilot candidates.	The Authority has reported on the pool of qualified pilot candidates in the 1999, 2000, 2001, 2002 and 2003 Annual Reports.

ASSUMPTIONS USED FOR DEVELOPMENT OF THE CORPORATE PLAN

TRAFFIC VOLUME

Pilotage service is now provided almost entirely to ocean vessels although in the last five years it has been noticed that Canadian tankers are using the services of pilots on a more consistent basis. Since the early 1980's there was a steady and continuous decline in pilotage assignments. This trend was reversed in 1993 when total assignments were 8% higher than those in 1992 and traffic in 1994 was 42% higher than that experienced in 1993. The traffic for 1995 decreased 21% from the level of 1994 and traffic for 1996 increased 13% from the 1995 levels with 1997 traffic being 4% higher than 1996. Traffic in 1998 increased 26% over 1997 due to unusual and unexpected reasons. Steel imports were being threatened with legislation on quotas and import tariff penalties; therefore, a large amount of steel entered the Great Lakes before these proposed measures were to take place. History has since shown that these proposed measures designed to limit the import of steel never came to be and actually caused more steel to enter the system. Canadian assignments were also abnormally higher in 1998 because two of the International Districts could not supply sufficient U.S. pilots to handle their respective assignments therefore allowing the Canadian pilots to perform this overflow. The Americans have in 1999 increased pilot numbers allowing them to perform their required assignments.

Steel imports and grain exports are expected to remain at 1997 levels for the balance of 2003 as well as for the year 2004 and beyond. Traffic for 2003 is expected to be 10% less than 2002.

Traffic projections received by the Authority from the Marine and Surface Statistics and Forecasts Branch of Transport Canada forecast traffic levels for 2004 to 2008 to be similar to that of 2003.

Marine traffic during the planning period will be heavily dependant on grain exports and steel movements into and out of the Great Lakes ports. Traffic through the Welland Canal to ports in the upper lakes is important for revenue generation.

Assignments for 2004, which is only one of the Authority's revenue indicators as the size and destination of the vessels also have an impact on revenues, have been established at 6,800. While total 2003 assignments are unknown at the time of preparation of this plan, it is estimated based on the first six months of the season that a level of approximately 6,800 is likely.

	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Forecasted	2004-2008 Planned
Assignments	7,192	9,085	8,108	8,605	7,879	7,510	6,800	6,800
Percentage change	+ 4%	+26%	-10%	+6%	-8%	-5%	-10%	-%

TARIFF LEVELS

Summary of Tariff Changes

Actual											Planned
1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004-2008
[1] 1.5%	0%	0%	0%	0%	0%	[2] -5%	[3] -5%	0%	[4] +3%	[5] +8.5%	[6]

[1] 2.5% published in December 1993 with 1% reduction in 1993
[2] 5% reduction on the Canadian Sectors.
[3] 5% reduction to be repeated for second year.
[4] 3% overall tariff increase. (Tariff increase in Cornwall and Lake Ontario districts)
[5] 3% overall tariff increases in 2003 (Tariff increase in Cornwall and Lake Ontario districts) and a further 1% tariff increase in 2003 (Tariff increase in the International district #2) and 4.5% overall increase in August 2003.
[6] 4.5% overall increase in 2004 and 2% overall increase per year from 2005 to 2008

Summary of Inflation Increases - Consumer price Index

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Estimated 2004 - 2008
2.5%	1.8%	2.1%	1.3%	1.3%	1.4%	1.8%	1.6%	2.7%	2.5%	2%

Note: Sources for actual from Statistics Canada and forecast from CIBC observer.

WAGE INCREASES

All four (4) collective agreements with the Pilot Corporations were negotiated for a three (3) year term and expired March 31, 2002 with increase in wages averaging 3% increase per year. The Authority has renewed one of the four collective agreements with the pilots' group and is now in the final stage of negotiations with the other three groups. The ratified agreement is for five years and expires March 2007 yielding average wage increases of 23%. The Authority anticipates similar agreements with the other three groups. The Corporate Plan is prepared based on a cost of living wage increase to management and pilots for the years 2004 and 2005.

The collective agreement with the Public Service Alliance of Canada, which covers clerical staff and dispatchers expired June 30, 2003. The negotiation to renew the collective agreement will start in early 2004. The Authority is budgeting cost of living increases for this group of employees.

PILOT NUMBERS

In marine shipping, vessels enter and leave the system unscheduled under sometimes severe weather and environmental conditions. Therefore, an infrastructure must be in place in order to ensure safety, provide a pilot on demand (even to exempt vessels) and meet uneven traffic flows. This may not be possible in the future as financial self-sufficiency does not allow the Authority the luxury of having extra pilots to cover sudden and temporary increases in traffic that may never materialize.

The Authority believes that pilot numbers established in 2003 are sufficient to service the traffic being projected for the 2004-2008 period. Pilot numbers were reduced by 6 in 2003 and a further 3 in 2004 totalling a 13% reduction from 2001. In isolated periods of very high traffic, pilot demands cannot be met resulting in vessel delays. The Authority and the Industry must accept, as they have since 1994 some delays since the cost of eliminating all delays can be significant.

MAJOR OPERATIONAL RESTRUCTURING

The Authority announced in August 2003 a major operational restructuring of its dispatching and operational structure. GLPA has two operation centres where pilots are being dispatched from. Starting in 2004 all dispatching will be performed from one consolidated location in Cornwall, Ontario, therefore causing the closing of all operations at its Port Weller office. The restructuring will have no negative effect on the Authority's operations and will see improved operational decisions in the dispatching of pilots. The Authority will be eliminating three operation positions at the outset saving the organization $150,000 in the first year. Further reductions are possible in the future once the operations are combined and synergies are realized.

OTHER FACTORS

(i) The Authority will continue to review its operating costs and cost reductions will be made where possible as has been done in the past. Pilot numbers will be monitored in relation to demand with additions made only when it is clear that volume changes are likely to be sustained.

(ii) The operating statements for the planning period are based on a navigation season which will not exceed an average of 270 days.

(iii) Inflation forecasts are difficult to prepare given the uncertainty of future events and the speed inflation affects the cost of operation. The Authority will prepare the 5-year plan using 2% as an average cost of living increase. This figure is conservative and the best possible estimate at this time.

FINANCIAL POLICIES

Section 33 (3) of the *Pilotage Act* requires that the Authority shall, from its tariff of pilotage charges, derive sufficient revenue together with any revenue from other sources to permit it to operate on a self-sustaining financial basis.

The section also requires that the tariff of pilotage charges shall be fair and reasonable.

Whenever these two requirements are not compatible, the Authority has, as a matter of policy, taken the position that the tariffs of pilotage charges must first be fair and reasonable. While financial self-sufficiency is a stated objective of the Authority, it is the Authority's view that it should not always be achieved in each single year (or period) by abandoning the principle of "fair and reasonable".

The Authority's surplus funds has enabled it to maintain this balancing act of financial self-sufficiency and tariffs being fair and reasonable without having to depend on government funding which was eliminated in a Transport Canada policy decision as well as legislated with the adoption of the *Canada Marine Act*. The Authority has been able to limit pilotage tariff increases in the last ten years to rates of 13% less than inflation since 1993.

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

BALANCE SHEET

(000'S)

	ACTUAL 2002	FORECAST 2003	BUDGET 2004	FORECAST 2005	FORECAST 2006	FORECAST 2007	FORECAST 2008
ASSETS							
CURRENT ASSETS							
CASH AND SHORT TERM INVESTMENTS	$ 327	$ 219	$ 207	$ 283	$ 259	$ 278	$ 318
ACCOUNTS RECEIVABLE	2,690	2,421	2,744	2,800	2,856	2,913	2,971
	3,017	2,640	2,951	3,083	3,115	3,191	3,289
LONG TERM INVESTMENTS							
LONG TERM INVESTMENTS	2,506	502	277	242	295	338	381
INVESTMENTS - EMPLOYEE TERMINATION BENEFITS	3,033	3,037	3,262	3,547	3,844	4,151	4,469
	5,539	3,539	3,539	3,789	4,139	4,489	4,849
FIXED ASSETS	917	996	1,096	1,171	1,246	1,321	1,396
LESS: ACCUMULATED DEPRECIATION	(721)	(791)	(851)	(911)	(971)	(1,031)	(1,091)
	196	205	245	260	275	290	305
TOTAL ASSETS	$ 8,752	$ 6,384	$ 6,735	$ 7,132	$ 7,529	$ 7,970	$ 8,443
LIABILITIES							
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 4,370	$ 3,667	$ 3,740	$ 3,815	$ 3,891	$ 3,969	$ 4,048
ACCRUED TERMINATION BENEFITS	2,738	3,037	3,262	3,547	3,844	4,151	4,469
TOTAL LIABILITIES	7,108	6,704	7,002	7,362	7,735	8,120	8,516
SHAREHOLDER EQUITY							
COMMON STOCK	-	-	-	-	-	-	-
CONTRIBUTED CAPITAL	82	82	82	82	82	82	82
RETAINED EARNINGS	1,562	(402)	(349)	(312)	(288)	(232)	(155)
	1,644	(320)	(267)	(230)	(206)	(150)	(73)
TOTAL LIABILITIES AND EQUITY	$ 8,752	$ 6,384	$ 6,735	$ 7,132	$ 7,529	$ 7,970	$ 8,443

GREAT LAKES PILOTAGE AUTHORITY

OPERATING BUDGET

(000'S)

	ACTUAL 2002	FORECAST 2003	BUDGET 2004	FORECAST 2005	FORECAST 2006	FORECAST 2007	FORECAST 2008
REVENUES							
PILOTAGE	$ 12,666	$ 10,983	$ 12,822	$ 13,078	$ 13,340	$ 13,607	$ 13,879
INVESTMENTS	243	165	25	25	25	25	25
OTHER	123	135	150	150	150	150	150
TOTAL	$ 13,032	$ 11,283	$ 12,997	$ 13,253	$ 13,515	$ 13,782	$ 14,054
EXPENSES							
PILOT WAGES	$ 8,835	$ 7,459	$ 7,513	$ 7,682	$ 7,855	$ 8,012	$ 8,172
PILOT BENEFITS	1,493	1,420	1,281	1,310	1,339	1,336	1,363
OPERATION SALARIES	743	736	604	618	631	644	656
OPERATION BENEFITS	172	175	144	147	151	154	157
TRAVEL EXPENSES	825	750	775	791	806	822	839
PILOT BOAT	465	525	535	546	557	568	579
LAND TRANSPORTATION	339	275	275	281	286	292	298
TERMINATION BENEFITS							
ACCRUED	-	350	370	378	387	395	402
PAID	206	-	-	-	-	-	-
COMMUNICATION	56	55	45	45	45	50	50
DISPATCH SERVICES	154	155	150	150	150	150	150
UTILITIES AND SUPPLIES	111	110	110	110	110	110	110
TRAINING	30	72	75	75	75	75	75
TOTAL	$ 13,429	$ 12,082	$ 11,877	$ 12,133	$ 12,392	$ 12,808	$ 12,951
OPERATING MARGIN	(397)	(799)	$ 1,120	$ 1,120	$ 1,123	$ 1,174	$ 1,203
ADMINISTRATION EXPENSES							
SALARIES	$ 442	$ 435	$ 437	$ 447	$ 457	$ 466	$ 475
BENEFITS	109	110	110	112	115	117	120
UTILITIES AND RENT	80	90	90	90	90	90	90
RETIRED EMPLOYEES	16	20	15	14	12	10	10
DIRECTOR FEES & TRAVEL	128	130	130	133	135	138	141
ADMINISTRATION TRAVEL	135	100	100	100	100	100	100
COMMUNICATION	16	20	20	20	20	25	25
TERMINATION BENEFITS							
ACCRUED	48	50	55	57	60	62	65
PAID	-	-	-	-	-	-	-
PROFESSIONAL FEES	108	140	50	50	50	50	50
AMORTIZATION	92	70	60	60	60	60	60
TOTAL	$ 1,164	$ 1,165	$ 1,067	$ 1,083	$ 1,099	$ 1,118	$ 1,126
	-	-	-	-	-	-	-
SURPLUS (LOSS) FOR THE YEAR	(1,561)	(1,964)	$ 53	$ 37	$ 24	$ 56	$ 77

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

STATISTICAL DATA AND PERFORMANCE INDICATORS

(000'S)

	ACTUAL 2002	2003	FORECAST 2004	2005	2006	2007	2008
OPERATING SUMMARY							
TOTAL REVENUES	$ 13,032	$ 11,283	$ 12,997	$ 13,253	$ 13,515	$ 13,782	$ 14,054
PILOT WAGES AND BENEFITS	10,328	8,879	8,794	8,992	9,194	9,348	9,535
OPERATION WAGES AND BENEFITS	915	911	748	765	782	798	813
PILOT TRAVELLING COSTS	1,164	1,025	1,050	1,072	1,092	1,114	1,137
PILOT BOAT	465	525	535	546	557	568	579
OTHER DIRECT COSTS	557	742	750	758	767	780	787
TOTAL OPERATION COST	13,429	12,082	11,877	12,133	12,392	12,608	12,851
OPERATING MARGIN	(397)	(799)	1,120	1,120	1,123	1,174	1,203
ADMINISTRATIVE EXPENSES	1,164	1,165	1,067	1,093	1,099	1,118	1,126
SURPLUS (LOSS) FOR THE YEAR	(1,561)	(1,964)	$ 53	$ 37	$ 24	$ 56	$ 77
STATISTICS							
TOTAL ASSIGNMENTS	7,510	6,800	6,800	6,800	6,800	6,800	6,800
AVERAGE BRIDGE HOURS PER ASSIGNMENT	8.2	8.2	8.2	8.2	8.2	8.2	8.2
TOTAL BRIDGE HOURS	61,582	55,760	55,760	55,760	55,760	55,760	55,760
AVERAGE NUMBER OF PILOTS	63	62.5	60	60	60	60	60
INCIDENT FREE ASSIGNMENTS	99.5%	99.5%	100.0%	100.0%	100.0%	100.0%	100.0%
AVERAGE ASSIGNMENTS PER PILOT	119	109	113	113	113	113	113
PERFORMANCE INDICATORS							
ADMINISTRATION AS A PERCENTAGE OF :							
(i) TOTAL COSTS	8.0%	8.8%	8.2%	8.2%	8.1%	8.1%	8.1%
(ii) TOTAL REVENUE	8.9%	10.3%	8.2%	8.2%	8.1%	8.1%	8.0%
REVENUES PER ASSIGNMENT	$ 1,735	$ 1,659	$ 1,911	$ 1,949	$ 1,988	$ 2,027	$ 2,067
OPERATING EXPENSE PER ASSIGNMENT	$ 1,788	$ 1,777	$ 1,747	$ 1,784	$ 1,822	$ 1,854	$ 1,890
GROSS MARGIN PER ASSIGNMENT	(53)	(118)	$ 165	$ 165	$ 165	$ 173	$ 177
PROFIT (LOSS) PER ASSIGNMENT	(208)	(289)	$ 8	$ 5	$ 4	$ 8	$ 11

GREAT LAKES PILOTAGE AUTHORITY

CAPITAL BUDGET

2004

Communications equipment	$ 5,000
Office equipment & furniture	5,000
Computer upgrade for hardware & software & lap tops for electronic charts systems for pilots	90,000
	$100,000

Planned capital items of expenditure provide for the outlay of $5,000 to replace obsolete and worn office equipment and furniture at the Authority's offices during the year 2004 and $5,000 for communication equipment. As well, the Authority has planned on spending up to $90,000 to purchase computer equipment for operating electronic navigation charts.